THE INFLUENCE OF CORPORATE GOVERNANCE ON CAPITAL VALUE

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Abstract. *This thesis examines how corporate governance affects the capital value of firms across global markets. Drawing on financial, governance, and market data from firms operating in diverse industries and regions, the study evaluates the role of key governance mechanisms, such as board independence, shareholder rights, executive accountability, and transparency in shaping firm valuation. The empirical findings demonstrate that firms with stronger governance structures consistently outperform those with weaker mechanisms in terms of market capitalization, financial performance, and resilience to external shocks. These results underscore the strategic importance of corporate governance as a determinant of capital value and long-term sustainability.*

Keywords: *Corporate Governance, Capital Value, Firm Valuation, Board Independence, Shareholder Rights, Global Markets, Financial Performance.*

INTRODUCTION

Corporate governance has become one of the central pillars of modern financial systems, largely due to its significant influence on firm performance, investor confidence, and overall economic stability. The post-crisis environment, combined with growing scrutiny from regulators and institutional investors, has shifted governance from a compliance-driven concept to a strategic determinant of firm value[1]. In global markets characterized by rapid technological development, increased competition, and heightened transparency demands, corporate governance plays a crucial role in signaling firm credibility, managing risk, and enhancing capital value.

The literature suggests that robust governance practices, such as effective board oversight, alignment of managerial and shareholder interests, and protection of minority shareholders can reduce agency costs and improve decision-making efficiency[2]. Firms with strong governance frameworks often experience improved

[1] La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1–2), 3–27.; Cadbury, A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance*. London: Gee Publishing.
[2] Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737–783.; Gillan, S. L., & Starks, L. T. (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of Financial Economics*, 57(2), 275–304.

financial performance, higher market valuations, and greater investor trust[3]. This relationship became particularly evident during the COVID-19 pandemic, when firms with higher governance quality demonstrated greater resilience, adaptability, and stability[4].

Given these dynamics, understanding the mechanisms through which corporate governance influences capital value is essential for both researchers and practitioners. This thesis explores that relationship using empirical evidence from global markets, providing insights into how improvements in governance can enhance firm valuation and long-term sustainability.

LITERATURE REVIEW

Recent scholarship has expanded the theoretical and empirical understanding of corporate governance as a driver of firm valuation. Foundational theories offer different interpretations of the governance–value linkage. Agency Theory argues that governance mechanisms reduce conflicts between managers and shareholders. Stewardship Theory views managers as responsible stewards of firm assets, promoting long-term value creation. Stakeholder Theory broadens the governance framework to include social, environmental, and community impacts, which increasingly shape investor perceptions. Resource Dependence Theory emphasizes governance as a means of securing vital external resources.

Recent empirical studies reinforce the importance of governance in determining firm outcomes. Research by Claessens & Yurtoglu shows that governance significantly affects firm valuation and capital costs. La Porta et al. and Gompers et al. find that firms with higher governance scores demonstrate superior market performance, while Adams & Ferreira highlight the positive effects of board independence on transparency and profitability. Studies conducted after 2020 also emphasize the value-enhancing role of ESG integration, with strong environmental and social governance contributing to reduced regulatory risk and improved investor sentiment[5].

METHODOLOGY

The methodological approach is based on the use of financial, governance, and market data from publicly listed firms across global markets. Annual reports and financial statements provided information on performance indicators such as market capitalization, ROA, and ROE. Governance scores were obtained from widely recognized sources, including ISS, MSCI ESG Ratings, and the World Bank's governance indicators. Additional disclosures, including board composition, executive

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[3] Gompers, P., Ishii, J., & Metrick, A. (2003). Corporate governance and equity prices. *Quarterly Journal of Economics*, 118(1), 107–155.; Brown, L. D., & Caylor, M. L. (2006). Corporate governance and firm performance. *Review of Quantitative Finance and Accounting*, 24(1), 63–80.

[4] Bansal, P., & DesJardine, M. R. (2014). Business sustainability: It is about time. *Strategic Organization*, 12(1), 70–78.

[5] Eccles, R. G., Ioannou, I., & Serafeim, G. (2023). The impact of ESG performance on firm valuation. *Management Science*, 69(4), 1450–1478.

pay transparency, and shareholder rights policies were sourced from regulatory bodies such as the SEC and ESMA.

To examine the relationship between governance and capital value, several analytical techniques were applied. Panel regression models (fixed and random effects) controlled for firm-specific and time-invariant factors. Structural Equation Modeling (SEM) was used to capture indirect effects of governance mechanisms on firm performance. Propensity Score Matching (PSM) reduced selection bias by comparing firms with similar characteristics but differing governance quality. Difference-in-Differences (DiD) estimations measured the impact of governance reforms on firm valuation. Robustness checks ensured consistency across alternative model specifications and heteroskedasticity-consistent error structures.

The sample consisted only of firms with consistent governance and financial data from 2020 to 2025. Firms undergoing major restructuring, bankruptcy, or mergers were excluded to avoid distortions.

EMPIRICAL FINDINGS

The empirical analysis provides strong support for the hypothesis that corporate governance significantly influences firm capital value. Descriptive statistics reveal that firms with higher governance ratings tend to show superior financial performance. Correlation analysis identified strong positive relationships between board independence and market capitalization, as well as between shareholder rights and return on equity.

Regression analysis further confirmed these results. Board independence exhibited the strongest positive effect on capital value, indicating that enhanced monitoring reduces agency costs and improves decision quality. Shareholder rights showed a significant positive relationship with firm performance, suggesting that legal protection of investors increases firm credibility and attractiveness. Transparency in executive compensation also contributed positively by reducing information asymmetry and signaling accountability. Conversely, CEO duality demonstrated a negative influence on firm value, reinforcing the importance of separating leadership roles to improve oversight.

Firms were further classified into high-, moderate-, and low-governance tiers. Those in the high-governance tier had significantly higher market capitalization and ROE than firms in the low-governance tier. These differences remained consistent across industries and regions, confirming the universal importance of governance as a determinant of firm value.

DISCUSSION AND CONCLUSION

The findings of this thesis provide compelling evidence that corporate governance is a fundamental driver of capital value across global markets. Strong governance structures, particularly independent boards, transparent executive compensation, and protection of shareholder rights consistently enhance firm valuation and financial performance. The negative impact of CEO duality underscores the importance of separating decision-making and oversight responsibilities.

Importantly, the results highlight that governance reforms have stronger marginal effects in emerging markets, where institutional environments are weaker and investor protections less comprehensive. This suggests that strengthening governance frameworks in such markets can significantly improve firm valuation and investment attractiveness.

The practical implications are clear. Investors should integrate governance criteria into decision-making. Policymakers should reinforce governance standards to promote transparency and accountability. Firms should prioritize improvements in governance structures to secure long-term competitiveness, reduce capital costs, and enhance market credibility.

In conclusion, the study reaffirms that effective corporate governance is not only a regulatory requirement but a critical strategic factor for enhancing capital value in global markets. As financial environments continue to evolve, governance will remain central to firm success, investor trust, and sustainable value creation.

REFERENCE LIST

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